

Executive Summary

Section 2207 Report to Congress

January 2008

With levels of violence in Iraq remaining relatively low this quarter, the U.S. mission continued working to help improve the Iraqi government's capacity to spend its resources effectively, provide essential services, and promote economic development. U.S. civilian assistance to Iraq between October 1 and December 31 maintained a strong focus on capacity-building at the national and local levels of Iraqi government. Progress continued toward the completion of the few remaining reconstruction projects financed by the Iraq Relief and Reconstruction Fund (IRRF).

Iraq's national and provincial governments have demonstrated an increasing capacity to execute their capital budgets this year, a prerequisite for the robust delivery of essential services and increased oil production. These improvements are due in part to U.S. capacity-building efforts, further expanded this quarter, within national ministries and provincial governments. They help position the Iraqi government to eliminate bottlenecks and shortfalls in the provision of essential services to the Iraqi people in the coming years. Although growing demand for electricity continues to outpace supply, electricity generation again reached record levels this quarter. With oil exports growing and world prices high, the petroleum sector continued to provide additional resources to the Iraqi government, although U.S. support to budget execution remains necessary to help Iraq make use of these funds. Additional primary health clinics also opened this quarter.

Fellow donor governments are also assisting in many aspects of Iraq's reconstruction. The Iraqi government established a secretariat to identify priority projects for donors and to help implement the commitments to reform it made in the International Compact with Iraq. Notable bilateral developments this quarter include the decisions by the Italian and Kuwaiti governments to provide additional soft loans and humanitarian assistance to Iraq totaling \$204 million. Iraq's efforts to reduce its Hussein-era debt burden met with additional success as well when Bulgaria agreed to cancel \$3.5 billion in Iraqi debt in return for a cash payment of \$360 million.

Iraq Relief and Reconstruction Fund (IRRF) Summary

The vast majority of IRRF-funded reconstruction projects are now complete. To date, more than 5,300 construction projects and more than 12,900 non-construction projects have been completed, the latter comprising mostly small projects funded through USAID in democracy building, economic growth, health, and education. Sixty-two projects – all of which were construction projects – were completed this quarter using IRRF funding.

Ninety-seven percent of the funds apportioned to IRRF have been obligated to specific projects, with most of the remainder only available for claims and adjustments related to existing contracts. As of December, 90 percent of IRRF funds have been disbursed in payment for completed work. Of the remaining obligated but undisbursed funds, the majority are obligated to the electricity sector (\$583 million remaining) and the water sector (\$350 million). Roughly 65 percent of the 255 ongoing projects are scheduled to be finished in the next two months.

Sector	Key Accomplishments this Quarter
Electricity	<ul style="list-style-type: none"> Average daily hours of power after meeting demand for essential services: <ul style="list-style-type: none"> Nationwide average: 12.2 (up from 10.8 last quarter and 10.9 this quarter last year) In Baghdad: 9.0 (up from 6.5 last quarter and 6.0 this quarter last year) In Basrah: 16.9 (up from 16.6 last quarter and 13.5 this quarter last year) Record daily rate of 124,104 megawatt hours generated this quarter nationally, with a high of 28,500 generated in Baghdad Average daily peak of 4,700 megawatts generated
Oil	<ul style="list-style-type: none"> 2.38 million barrels per day average crude oil production (up from 2.17 million last quarter) 1.85 million barrels per day average oil exports (up from 1.71 million last quarter) Consistent operation of the northern pipeline, providing an additional point of crude export (through Turkey)
Water and Sewer	<ul style="list-style-type: none"> Completed six small water projects worth roughly \$4 million with local Iraqi firms
Health	<ul style="list-style-type: none"> Completed construction of 12 additional Primary Healthcare Centers, with ten more centers opened to the public
Transportation and Communications	<ul style="list-style-type: none"> Reopening of Mosul airport, partly financed with IRRF resources

Key accomplishments this quarter include:

- Health:** The Ministry of Health has confirmed that a total of 72 Primary Healthcare Centers have been completed and transferred to the Government of Iraq, of which a total of 39 centers have opened to provide care. This represents an additional ten facilities opened in the last quarter. In the upcoming calendar year, U.S. efforts will continue to focus on transferring responsibility for U.S.-funded facilities to the Ministry of Health, delivering specialized supplies and equipment to medical facilities for epidemic preparedness, and training core health staff.
- Basrah Children's Hospital:** Construction continues on what will be Iraq's premier pediatric teaching hospital, with U.S.-funded construction being 72 percent complete. Two key partners in the project, the Embassy's Iraq Transition Assistance Office and the United Nations Development Program, recently finalized and signed a memorandum of understanding. Construction of the facility is scheduled for completion in the summer of 2008, with major equipment installation to follow.

- **Electricity:** In early October, the Ministry of Electricity again celebrated several days of record-breaking electrical generation at the national level. As a result, the Ministry was able to meet 65 percent of national demand in early October, the highest point in nearly a year. Despite recent gains, however, critical power lines continue to trip intermittently due to interdictions and a failure by the provinces to shed load when asked. Consequently, the Ministry met an average of 56 percent of demand over the past quarter. The Ministry also conducted its annual maintenance outage schedule, which involved taking roughly 1,000 megawatts of capacity off-line. The loss of capacity resulting from this maintenance was mitigated by a seasonal low in demand, the delivery of key fuels, and the addition of new capacity to the grid. This maintenance program will be critical in reducing unplanned outages next year and will improve service for ordinary Iraqis.
- **Resumption of Hajj flights:** The Mosul airport processed its first commercial passenger flight since 1993, serving 152 Hajj pilgrims. In partnership with Ninawa's provincial council and governor, the Department of State spent \$10.3 million on aviation equipment and the airport's air traffic control tower and \$3.2 million to help renovate the passenger terminal.

Economic Support Fund (ESF) Summary:

U.S. assistance efforts have increasingly focused on supporting programs to develop Iraqi capacity through Economic Support Funds (ESF) and other foreign assistance programs. ESF-funded programs support Iraqi decentralization efforts by empowering provincial and municipal authorities and building strong institutions. Key Iraqi bodies such as the Provincial Reconstruction Development Councils serve as focal points for the efforts of local leaders, assisted by Provincial Reconstruction Teams (PRTs), to rehabilitate essential services. Microfinance and employment generation programs are providing economic opportunities and aiding in Iraq's transition to sustainable economic growth. Agribusiness programs help ensure a diversified Iraqi economy based on resources beyond petroleum exports. Democracy programs enhance the country's capacity to conduct credible elections and help underrepresented groups participate in the governance process.

Key ESF program accomplishments this quarter include:

- **Capacity Development:** To accelerate improvement in the performance of key national ministries, the U.S. mission continued to increase the number of advisors dedicated to training ministerial employees in public administration, management, leadership, and technical fields. In 2007, several USG agencies sent a total of 43 additional advisors, seven of whom arrived during the fourth quarter, to support ongoing capacity development programs in key civilian ministries, with more scheduled to arrive in early 2008.

During the past three months, more than 2,500 Iraqi government civil servants were trained in public administration skills, with the total number of civil servants receiving this training to date reaching approximately 5,000. Training-of-trainers programs remain underway in most ministries to build institutional capacity at an accelerated rate; 283 Iraqi trainers are transferring their new public administration skills to their colleagues. Longer-term initiatives

are in progress as well, including a scholarship program that supports Iraqis pursuing graduate study in public administration and a program to expand the number and capacity of national and regional training centers.

- **Procurement Assistance:** Over the past six months, the Procurement Assistance program came fully online with the implementation of three separate Procurement Assistance Centers (PACs) and seven Provincial Procurement Assistance Teams (PPATs). PACs provide policy planning and formulation to the central Ministry of Planning, while PPATs work with provincial government officials to establish viable procurement programs. Most recently, training workshops were held in October and December for Iraqis who expressed a desire to work in one of Iraq's PPATs.
- **PRT Quick Response Fund:** As part of our PRT program, the Quick Response Fund promotes economic, civic, and social development within Iraqi provinces. The fund is administered by PRT staff who identify worthy projects at the local level that build the capacity of local neighborhood and government officials to deliver services transparently, empower women and youth, and support civil society and small businesses. By early December, 75 purchases, contracts, and grants had been processed, with a total value more than \$10 million. These projects span an array of sectors, including the purchase of a water pump for irrigation on the Euphrates River, the establishment of a fund for women in small business in Anbar province, and women's vocational training in Karbala province.
- **Ambassador's Targeted Development Program:** The Targeted Development Program (TDP) provides the ambassador with the ability to support economic and social development initiatives throughout Iraq with \$57.4 million from the Economic Support Fund. The program is open to international and Iraqi non-governmental organizations and is currently in the second round of proposal requests. Thirty-two proposals were submitted in the first round and nine have recently been approved for grants.
- **Private Sector Agribusiness Development:** This quarter witnessed significant progress in USAID's private sector agribusiness development program, known as *Inma*. This \$93 million program promotes formation and growth of agribusiness firms to stimulate and expand agriculture production, increase productivity, and achieve higher levels of employment. The program identifies and supports new businesses, expands the operations of existing privately-owned and -operated businesses, and complements specific supply chain enhancements to help Iraq meet its domestic food needs. Over the last quarter, the *Inma* program helped Iraqi date producers increase their productivity and worked with horticulturalists and makers of seed hybrids to identify hybrids that will perform well in Iraq.
- **Democracy and Governance:** Activities funded by USAID and the Department of State's Bureau of Democracy, Human Rights, and Labor (DRL) continued to play a key role in support of the U.S. democracy and governance strategy for Iraq. These programs focus on empowering Iraqi citizens, civil society, and democratic institutions to cooperate toward reducing violence and building a sustainable, accountable, and responsive system of governance at the national and local levels. Specific activities this quarter included training for Iraq's political parties; support for conducting provincial and national elections; the

development of advocacy skills for members of Iraq's civil society, including women's advocacy groups; and support to local economic and social initiatives through community-based programs. DRL is also expanding its role in promoting human rights by training members of civil society and the Iraqi government.

- **Other ESF Programs:** U.S.-funded employment generation programs, specifically USAID's Community Stabilization Program (CSP) and Community Action Program (CAP), continue to play a role in mitigating violence and helping communities to function. This quarter, USAID dedicated an additional \$55 million to CAP (now \$145 million), which increased the pace of community projects. The program continues to assist innocent Iraqi victims of ongoing fighting through the Marla Ruzicka Fund, which helps to build trust between USAID implementers and their local communities.

Provincial Reconstruction Teams

This quarter saw the full surge of civilian personnel into Provincial Reconstruction Teams and the Embassy's Office of Provincial Affairs. More than 350 civilians are in theater as of December, including technical personnel with specialties including rule of law, governance, agriculture, and business development. This represents an increase of more than 150 personnel since last quarter. PRTs help enhance the capacity of local leaders to provide essential services and rebuild their communities, with the intent of improving the lives of Iraqi citizens and make counter-insurgency efforts more effective. In the field, PRT officials work at the local district and neighborhood levels and are distributed across 11 full PRTs, seven smaller Provincial Support Teams, and 13 embedded PRTs (ePRTs) that are co-located with Brigade Combat Teams.

Budget Execution

Iraq's national ministries and provincial governments have been increasingly successful in using the nation's own considerable resources to meet the needs of the Iraqi people by developing, committing, and spending their own capital reconstruction budgets. Real impediments to budget execution remain, such as the security environment, corruption, fear of corruption charges, and, in many cases, a lack of technical expertise, but improvements have been significant.

The most recent data from the Iraqi Ministry of Finance indicate that, through September 30, 2007, central government ministries had spent 35 percent of their 2007 capital budgets. The Ministries of Oil and Electricity, which have the largest capital budgets, spent 41 percent and 32 percent of their 2007 capital budgets through September, respectively. This puts them in the early stages of making the investments necessary to improve production levels. By contrast, central government ministries spent only 15 percent of their allocated capital budgets in all of 2006 (see charts below).

**Government of Iraq Ministerial Budget Execution
Calendar Year 2006**

Ministry	Capital Budget Allocated (millions USD)	Capital Budget Expended to Date (millions USD)	Capital Budget Expended to Date (percentage)
Communication	165	1	<1%
Education	15	16	109%
Electricity	767	267	35%
Health	33	17	51%
Housing & Construction	313	91	29%
Oil	3,533	90	3%
Public Works	237	81	34%
Water Resources	200	91	46%
ALL MINISTRIES	5,681	854	15%

Source: Final Iraqi Ministry of Finance data.

Note: The ministries specifically listed in this chart represent 93 percent of the total ministerial capital budget allocation.

**Government of Iraq Ministerial Budget Execution
Year to Date as of September 30, Calendar Year 2007**

Ministry	Capital Budget Allocated (millions USD)	Capital Budget Expended (millions USD)	Capital Budget Expended (percentage)
Communication	153	105	68%
Education	290	88	30%
Electricity	1,385	443	32%
Health	342	15	4%
Housing & Construction	335	141	42%
Oil	2,381	984	41%
Public Works	345	183	53%
Water Resources	262	103	39%
ALL MINISTRIES	6,337	2,206	35%

Source: Iraqi Ministry of Finance, Special Report on Capital Expenditures
Data through September 30, 2007.

Note: The ministries specifically listed in this chart represent 85 percent of the total ministerial capital budget allocation.

The Iraqi government's decision to allocate funds directly to provincial governments has also proven successful. Because provincial governments did not receive a large percentage of their 2006 allocated funds until December of that year, the vast majority of those funds remained uncommitted in 2006 and were carried over into calendar year 2007. As a result, provincial governments have been committing and spending funds from both the 2006 and 2007 capital budgets simultaneously during calendar year 2007. As a result, it is more representative in determining the progress of 2007 provincial capital budget execution to combine the expenditure of both 2006 and 2007 funds.

Unofficial data collected by PRTs indicate that, through December 11, provincial governments have spent an estimated \$2.05 billion of their combined 2006 and 2007 funds, or an average of 45 percent – a higher share than the national ministries. This is a significant accomplishment, given that prior to 2006, provincial governments were not allocated a budget and had no provincial spending authority. While there has been substantial improvement, provincial governments face some of the same impediments and challenges to capital budget execution as ministries experience. PRTs continue to assist provincial governments in overcoming these hurdles.

**Combined Provincial Execution of 2006 and 2007 Capital Funds
Through December 11, 2007**

Province	2006 & 2007 Capital Budgets Allocated (millions USD)	2006 & 2007 Capital Budgets Expended (millions USD)	2006 & 2007 Capital Budgets Expended (percentage of allocation)
Anbar	273	108	40%
Babil	278	145	52%
Baghdad	1063	497	47%
Basrah	367	159	43%
Dhi Qar	303	185	61%
Diyala	209	0	0%
Karbala	133	84	63%
Kurdish Provinces	445	84	19%
Maysan	143	50	35%
Muthana	98	54	55%
Najaf	167	69	41%
Ninawa	428	225	53%
Qadisiya	138	94	68%
Salah ad Din	176	97	55%
Tameem	171	107	63%
Wasit	157	97	62%
TOTAL	4549	2055	45%

Source: Preliminary PRT data through December 11, 2007.

It is important to note that, in 2007, the MoF began using a new Chart of Accounts per Iraq's Stand-By Arrangement with the IMF and now records capital expenditures in multiple expenditure categories. Analysts continue to reconcile the 2006 and 2007 capital expenditure reports, which are based on the two different charts of account, in order to best determine the accurate spending amounts for 2007. Although this change has made straight comparison between 2006 and 2007 ministerial budget execution more difficult, it remains useful to compare the two years for broad indications of change in Iraqi ministries' performance. PRT

data are generated through each team's ongoing interaction with provincial officials but should be considered a preliminary estimate. U.S. Government officials continue to assist both ministerial and provincial officials in improving the mechanisms of tracking and reporting capital budget execution.

The draft 2008 Federal Budget Law was submitted to the Council of Representatives in November and, following a delay due to internal political disagreements, received its second reading on December 5. The law currently awaits substantive debate and a vote by the Council as a whole. Passage of the law is expected by early February.

The International Compact with Iraq and Other Donor Activities

The Government of Iraq has made steady progress toward carrying out the reform commitments made under the International Compact with Iraq (ICI). Launched in May, the ICI establishes a framework of economic and political reform commitments that will enable Iraq to realize its national vision of a secure, unified, federal, and democratic nation with a vibrant private sector. According to the Mid-Year Progress Report, the Government of Iraq has taken initial steps toward meeting 75 percent of the Compact's 400 benchmarks.

This quarter, the Government of Iraq established a secretariat to coordinate implementation of the ICI. The secretariat's leadership and staff have been appointed and started work. Thematic Working Groups, which are responsible for developing the Iraqi government's sector-specific strategies and identifying priorities for donor assistance, have also begun to meet. Additionally, the Donors Committee of the International Reconstruction Fund Facility for Iraq (IRFFI) agreed in its October meeting to modify the IRFFI's terms of reference to bring its goals and operations fully into alignment with those identified in the ICI.

New developments this quarter included Kuwait's decision to donate \$60 million in humanitarian assistance and the signing of a cooperation agreement between Iraq and Italy laying the foundations for Italy to provide \$144 million in soft loans. Iraq is also taking the final steps needed to make effective an additional \$399 million in concessional lending from the World Bank for electrical, educational, and road infrastructure projects. Iraq also made further progress this quarter toward reducing its external Saddam-era debt burden. Most notably, Bulgaria agreed to cancel its \$3.51 billion in Iraqi debt in exchange for cash payment of about \$360 million.

Developments in the private sector complemented donor government activities. The U.S.-Iraq Business Dialogue, composed of leaders of the U.S. and Iraqi business community, continued to issue recommendations to promote growth in the Iraqi private sector and enhance bilateral commercial ties. In addition, activities in several other fora demonstrate the increased interest and potential activity of the private sector in Iraq. For example, Iraqi private banks agreed at a conference in December to establish core banking systems and cooperate on financial infrastructure while competing on price and services. Additionally, more than 100 companies attended a trade fair in Erbil at the end of October.